Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006

Message Text

CONFIDENTIAL

PAGE 01 JAKART 09675 231137Z

65-44
ACTION EA-06

INFO OCT-01 SS-14 ISO-00 ARA-06 NEA-07 EUR-08 CIAE-00

DODE-00 EB-03 H-01 INR-05 L-01 NSC-05 NSCE-00 OES-02

OMB-01 PM-03 SAM-01 SP-02 TRSE-00 AF-04 INRE-00 SSO-00

EAE-00 ACDA-10 /080 W
---------- 120629
O R 231016Z JUL 76
FM AMEMBASSY JAKARTA
TO SECSTATE WASHDC IMMEDIATE 5795
INFO AMEMBASSY ABU DHABI
AMEMBASSY CARACAS
AMEMBASSY DOHA
AMEMBASSY JIDDA
AMEMBASSY KUWAIT
AMEMBASSY LAGOS
AMEMBASSY LIBREVILLE
AMEMBASSY QUITO
AMEMBASSY SINGAPORE
AMEMBASSY TEHRAN
AMEMBASSY TOKYO
AMEMBASSY TRIPOLI
AMEMBASSY LONDON
AMEMBASSY PARIS
USINT BAGDAD
AMCONSUL HONG KONG
AMCONSUL MEDAN
AMCONSUL SURABAYA

C O N F I D E N T I A L JAKARTA 9675

LIMDIS

HONG KONG PASS TREASURY REP

E.O. 11652: GDS
TAGS: ENRG, ID
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 JAKART 09675 231137Z

SUBJECT: GOI-OIL COMPANY DISCUSSIONS

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006

REF: JAKARTA 9624

1. AS EXPECTED, GOI PRESENTED MAJOR PRODUCTION-SHARING COMPANIES WITH GOVERNMENT'S FINAL POSITION ON REVISION OF CONTRACTS JULY 23. IN ADDITION TO COMPANIES MENTIONED PREVIOUSLY, GOI HAS NOW CALLED IN TOTAL (CFP). PERTAMINA PRESIDENT HARYONO GAVE COMPANIES LETTERS WHICH CONTAINED GOI'S FINAL GUIDELINES. SESSIONS WERE BRIEF AND THERE WAS LITTLE DISCUSSION BETWEEN GOVERNMENT AND OIL INDUSTRY REPS.

2. ACCORDING TO COMPANY SOURCES CONTACTED, GOI HAS MODIFIED ITS GUIDELINES SO THAT PRODUCTION-SHARING COMPANIES ARE NOW DIVIDED INTO TWO CATEGORIES: FIRST GROUP ARE THOSE CONTRACTORS WITH PROVEN RESERVES (FIELDS) EXPECTED TO LAST LESS THAN SEVEN YEARS; SECOND GROUP ARE THOSE WITH RESERVES LASTING MORE THAN SEVEN YEARS. CONTRACTORS IN FIRST GROUP WILL BE ALLOWED TO RECOVER COSTS ON AVERAGE SEVEN YEAR BASIS USING DOUBLE DECLINING BALANCE FORMULA. GROUP TWO COMPANIES WILL USE SAME METHOD BUT ON FOURTEEN YEAR BASIS. THIS FORMULA IS WEIGHTED TOWARD FRONT END RECOVERY AND FOLLOWS SLOPE OF PRODUCTION CURVE ON TYPICAL FIELD; IT BASICALLY ALLOWS COMPANIES TO GET ABOUT HALF THEIR DEPRECIATION IN FIRST TWO YEARS. FOR BOTH GROUPS, PROFITS WILL BE DIVIDED ON 85 PERCENT/ 15 PERCENT BASIS; THIS SPLIT REPLACES PREVIOUS 1974 WINDFALL PROFITS TAX AND 1975 ACCELERATED PRODUCTION SCHEDULE. NON-CAPITAL EXPENDITURES WILL BE EXPENSED IN YEAR OF EXPENDITURE. THESE INCLUDE GEOLOGICAL AND GEOPHYSICAL COSTS (GNG) AND INTANGIBLE DRILLING COSTS (IDC). EXPENDITURES MADE PRIOR TO JANUARY 1, 1976 WILL USE STRAIGHT CARRYFORWARD METHOD WITH EIGHT PERCENT INTEREST: GROUP ONE COMPANIES WILL BE ALLOWED FIVE YEAR, STRAIGHT LINE DEPRECIATION; GROUP TWO CONTRACTORS WILL HAVE TEN YEAR STRAIGHT LINE PERIOD. PRO RATA, DOMESTIC CONSUMPTION CRUDE REQUIREMENTS REMAIN UNCHANGED.

3. PERTAMINA PRESIDENT HARYONO INSTRUCTED COMPANIES TO RETURN ON TUESDAY, JULY 27 TO FINALIZE AGREEMENT. NEW CONFIDENTIAL

CONFIDENTIAL

PAGE 03 JAKART 09675 231137Z

AGREEMENTS WILL BE RETROACTIVE TO JANUARY 1, 1976. COMPANIES WERE INFORMED THAT GOI WISHES FIRST PAYMENT DUE AUGUST WHICH WILL COVER PERIOD FROM JANUARY TO JUNE. GOVERNMENT ALSO TOLD COMPANIES THEY WOULD WORK TOWARD MAKING NEW CONTRACTS ACTUALLY EFFECTIVE AS OF JANUARY 1, 1977 IN ORDER AVOID ANY PROBLEMS WITH IRS RULING ON PRODUCTION-SHARING AGREEMENTS. PAYMENT OF ADDITIONAL MONEY FOR 1976 PERIOD, THEREFORE, MIGHT POS-

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006

SIBLY BE COVERED BY EXCHANGE OF SIDE LETTERS.

4. SMALLER PRODUCTION-SHARING CONTRACTORS SUCH AS HUFFCO, TESORO, ASAMERA, ETC. HAVE BEEN CONVOKED FOR MEETINGS TOMORROW, JULY 24. CALTEX, WHICH ALSO OPERATES UNDER FIVE SEPARATE PRODUCTION-SHARING AGREEMENTS, HAS ALSO BEEN SUMMONED. THIS MARKS FIRST TIME SINCE EARLY APRIL THAT THESE COMPANIES HAVE BEEN CALLED IN BY GOVERNMENT.

5. GOVERNMENT'S LATEST PRONOUNCEMENT HAS CAST PALL OVER JAKARTA'S OIL PATCH. SURVEY OF MAJOR COMPANIES INDICATES THAT LATEST GUIDELINES WILL RESULT IN REDUCTION OF COMPANIES' PER BARREL "TAKE" BE APPROXIMATELY $2.40. THOSE COMPANIES THAT CARE TO ADMIT IT, REALIZE THAT SITUATION COULD HAVE BEEN EVEN WORSE BUT THAT IS SMALL CONSOLATION AT THIS POINT. FIRST REACTION FROM COMPANIES IS THAT THEY WILL HAVE GREAT DIFFICULTY AGREEING TO THESE CHANGES.
NEWSOM

CONFIDENTIAL

NNN

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006

Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PETROLEUM INDUSTRY, NEGOTIATIONS, CENTRAL GOVERNMENT, BUSINESS FIRMS, PROFIT SHARING, CONTRACTS
Control Number: n/a
Copy: SINGLE
Draft Date: 23 JUL 1976
Decaption Date: 28 MAY 2004
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: KelleyW0
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976JAKART09675
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D760284-0091
From: JAKARTA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760729/aaaaayyd.tel
Line Count: 135
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: LIMDIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: LIMDIS
Reference: 76 JAKARTA 9624
Review Action: RELEASED, APPROVED
Review Authority: KelleyW0
Review Comment: n/a
Review Content Flags:
Review Date: 26 APR 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <26 APR 2004 by buchant0>; APPROVED <19 AUG 2004 by KelleyW0>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: GOI-OIL COMPANY DISCUSSIONS
TAGS: ENRG, ID
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006